January 31, 2023

HDFC Credila Financial Services Limited: Ratings reaffirmed; rated amount enhanced for commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	1,000.00	1,500.00	[ICRA]A1+; assigned/reaffirmed
Bank lines programme	8,000.00	8,000.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture programme	1,100.00	1,100.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible subordinated debenture programme	250.00	250.00	[ICRA]AAA (Stable); reaffirmed
Perpetual debt programme	275.00	275.00	[ICRA]AA+ (Stable); reaffirmed
Total	**10,625.00**	**11,125.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in HDFC Credila Financial Services Limited's (HDFC Credila) parentage in the form of Housing Development Finance Corporation Limited (HDFC; rated [ICRA]AAA (Stable)/[ICRA]A1+). ICRA has also taken into consideration the shared brand name, indicating HDFC's strong commitment towards supporting HDFC Credila. The company continues to benefit from the operational and financial support from the parent in the form of a shared branch network, board representation, manpower and regular capital infusions. HDFC Credila's capitalisation profile is supported by healthy internal accruals and regular equity infusions from the parent to meet its growth requirements. The ratings factor in the company's strong domain knowledge in student education loans and experienced core management team, resulting in comfortable asset quality and profitability indicators.

HDFC Credila's scale of operations has improved with the strong growth in the loan book. However, its operations remain monoline with the entire loan book dominated by student education loans. Education loans have inherent risks, given their long tenures and moratorium period, low collateral cover, and the high delinquencies faced by the Indian banking sector in this segment. Considering the high growth, continued capital support from the parent and the company's ability to increase its loan book profitably while maintaining adequate capitalisation and asset quality will remain important from a credit perspective, going forward. HDFC infused capital of Rs. 300 crore in November 2022 to support HDFC Credila's growth requirements.

In April 2022, HDFC had announced a scheme of amalgamation whereby it would amalgamate with and into HDFC Bank Limited (HDFC Bank) subject to regulatory approvals. Upon the implementation of the proposed transaction, HDFC's subsidiaries/associates (including HDFC Credila) will become subsidiaries/associates of HDFC Bank, subject to regulatory and other approvals. ICRA takes note of the announcement and does not expect the proposed transaction to have an adverse impact on HDFC Credila's credit profile.

Key rating drivers and their description

Credit strengths

Strong financial and operational support from the parent – The ratings factor in the strong parentage of HDFC Credila with HDFC holding a 100% stake in the company. The ratings also take into consideration the shared brand name, indicating the strong commitment of HDFC to support HDFC Credila. The company continues to benefit from the parent's operational and financial support in the form of a shared branch network as well as manpower, and fund-raising support. The company's capitalisation (reported capital adequacy ratio (CAR) of 17.7% (Tier I ratio – 12.5%) and gearing of 6.63x as on December 31, 2022) is supported by regular equity infusions by the promoter and healthy internal accruals. Since FY2017, HDFC has infused capital of Rs. 735 crore into HDFC Credila, including Rs. 300 crore in November 2022. ICRA expects support from the parent to be forthcoming, if required.

Experienced management team with strong domain knowledge, resulting in good asset quality – The management team has significant experience in the financial sector and is guided by the HDFC Group's senior management, who are on the company's board. HDFC Credila's management information system (MIS) enables the tracking of the sourcing, appraisal, verification, disbursal and monitoring of clients across geographies. It also has a large database of universities and placement details across the world, which helps in risk assessment and appraisal. As a result, the company has reported good asset quality indicators with a gross stage 3 ratio of 0.24% (of which 0.10% is on account of restructuring as per the Resolution Framework for Covid-19-related Stress) as of December 31, 2022 (0.57% as of March 31, 2022). The ability to maintain the asset quality through business cycles will remain a monitorable.

Diversified borrowing profile – By virtue of being a part of the HDFC Group, the company has access to diverse funding sources at competitive rates. The borrowing profile remains skewed towards long-term funds to match the tenure of the loans extended. HDFC Credila's borrowings included bank loans (60%), debentures (33%), external commercial borrowings (4%) and commercial papers (2%) as on December 31, 2022.

Comfortable profitability – With the significant growth in the loan book, the company's gearing increased in 9M FY2023, leading to a decline in the net interest margin (NIM). Further, the NIM was impacted by the increase in the cost of funds being higher than the increase in yields (the higher cost of funds was not transmitted fully to the yields). The operating expenses remained stable at 1.3% of average total assets (ATA) in 9M FY2023 as the company has been investing in improving its technology and analytics. The profitability was supported by the low credit costs (0.1% of ATA in 9M FY2023 compared to 0.2% in FY2022) with the company reporting a net profit of Rs. 185 crore in 9M FY2023 (2.1% of ATA) compared to Rs. 206 crore (2.6% of ATA) in FY2022.

Credit challenges

Exposure to relatively risky education loans, given longer tenures and moratorium periods and low collateral cover – The entire loan book is concentrated towards education loans with a high share of the book under principal moratorium. ICRA has also considered the specific product feature, whereby 72% of the total loan book is unsecured. However, a large portion of the total loan book was for post-graduate courses as on December 31, 2022. Applicants in these courses have higher chances of gaining employment compared to undergraduates, somewhat mitigating concerns regarding their repayment ability. The collection of partial interest, even during the moratorium period, provides comfort. Further, HDFC Credila's focus on relatively premium segments and its track record in this segment provide comfort. The loan book grew a robust 55% (year-to-date; YTD) to Rs. 13,693 crore as on December 31, 2022 (year-on-year (YoY) growth of 41% to Rs. 8,838 crore as on March 31, 2022). The company has been focussed on education loans from inception and does not plan to diversify its loan book, going forward.

Liquidity position: Adequate

As on December 31, 2022, the company held Rs. 438 crore of cash and liquid investments along with Rs. 500 crore of unutilised bank lines against total debt (including interest payments) of Rs. 1,386 crore scheduled to mature in the next six months (i.e. up to June 2023). Historically, it has had no difficulty in refinancing its loans as it is a wholly-owned subsidiary of HDFC. Access to funds from diverse sources and the ability to secure funding at competitive rates provide good financial flexibility to HDFC Credila.

Rating sensitivities

Positive factors – Not applicable

Negative factors – ICRA could downgrade the ratings of HDFC Credila in case of a change in the parent's ratings or in the ownership. Pressure could also arise in the event of a sustained deterioration in the asset quality or a material increase in the gearing on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	ICRA expects HDFC to provide financial, managerial and operational support, when required, given the parentage and shared brand name
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

HDFC Credila Financial Services Limited was founded by Mr. Ajay Bohora and Mr. Anil Bohora in 2006. HDFC Credila, which received a non-banking financial company (NBFC) licence in 2007, is the first financial services company established as a specialised institution for originating, holding and servicing education loans. On December 12, 2019, HDFC bought 9.12% of the equity share capital of the company on a fully-diluted basis from the other shareholders, Mr. Ajay Bohora and Mr. Anil Bohora, making HDFC Credila its wholly-owned subsidiary. HDFC Credila was converted to a public limited company with effect from October 8, 2020. HDFC Credila, which is a key subsidiary of HDFC, leverages HDFC's brand name and infrastructure in the form of a shared branch network and manpower.

The company reported a net profit of Rs. 185 crore in 9M FY2023 with total assets of Rs. 14,232 crore against a net profit of Rs. 206 crore in FY2022 with total assets of Rs. 9,107 crore.

Key financial indicators (audited)

HDFC Credila Financial Services Limited	FY2020	FY2021	FY2022	9M FY2023^
Total income	727	713	824	909
Profit after tax	123	155	206	185
Net worth	986	1,144	1,361	1,840
Loan book	6,257	6,267	8,838	13,693
Total assets	7,001	6,603	9,107	14,232
Return on average assets	1.97%	2.28%	2.63%	2.11%
Return on average net worth*	15.23%	14.57%	16.48%	15.41%
Gross gearing (times)	6.0	4.7	5.6	6.6
Gross stage 3	0.12%	0.60%	0.57%	0.24%
Net stage 3	0.10%	0.40%	0.38%	0.15%
Solvency (Net stage 3/Net worth)	0.64%	2.20%	2.45%	1.12%
CRAR	22.27%	24.02%	18.93%	17.7%

Note: Amount in Rs. crore; All calculations are as per ICRA Research; ^Provisional
** Net worth includes Rs. 200 crore raised in March 2020 and Rs. 300 crore raised in November 2022*
Source: HDFC Credila, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)							Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2022 (Rs. crore)	Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020				
					Jan-31-23	Jul-26-22	Jun-20-22	Apr-05-22	Sep-14-21	Sep-18-20	Feb-05-20	Jul-02-19	Jun-17-19	Jun-04-19	Apr-22-19
1	Non-convertible debenture programme	Long term	1,100	1,100	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
2	Non-convertible subordinated debenture programme	Long term	250	250	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Perpetual debt programme	Long term	275	275	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	Commercial paper programme	Short term	1,500	300^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Bank lines	Long term	8,000	7,226^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

^ As on December 31, 2022

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank lines	Simple
Non-convertible debenture programme	Very Simple
Non-convertible subordinated debt programme	Simple
Perpetual debt programme	Moderately Complex
Commercial paper programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE539K08153	Non-convertible subordinated debenture programme	Jul-24-2017	8.20%	Jul-23-2027	50	[ICRA]AAA (Stable)
INE539K08195	Non-convertible subordinated debenture programme	Jun-06-2019	9.12%	Jun-06-2029	150	[ICRA]AAA (Stable)
INE539K08161	Non-convertible subordinated debenture programme	Nov-16-2017	8.10%	Nov-16-2027	50	[ICRA]AAA (Stable)
INE539K08179	Perpetual debt programme	Dec-08-2017	8.75%	NA#	50	[ICRA]AA+ (Stable)
INE539K08187	Perpetual debt programme	Jun-06-2018	9.35%	NA#	75	[ICRA]AA+ (Stable)
INE539K08112	Perpetual debt programme	Jul-09-2014	11.75%	NA#	50	[ICRA]AA+ (Stable)
INE539K08120	Perpetual debt programme	Jan-27-2015	10.50%	NA#	50	[ICRA]AA+ (Stable)
INE539K08138	Perpetual debt programme	Jun-17-2015	10.50%	NA#	50	[ICRA]AA+ (Stable)
INE539K07114	Non-convertible debenture programme	Jun-17-2019	8.62%	Jun-17-2024	100	[ICRA]AAA (Stable)
INE539K07122	Non-convertible debenture programme	Jul-08-2019	8.85%	Jul-06-2029	200	[ICRA]AAA (Stable)
INE539K07130	Non-convertible debenture programme	Aug-01-2019	8.70%	Aug-01-2029	200	[ICRA]AAA (Stable)
INE539K07148	Non-convertible debenture programme	Jan-31-2020	8.00%	Jan-31-2025	200	[ICRA]AAA (Stable)
INE539K07163	Non-convertible debenture programme	Sep-24-2020	5.99%	Aug-02-2023	200	[ICRA]AAA (Stable)
INE539K07171	Non-convertible debenture programme	Nov-13-2020	7.00%	Nov-12-2027	200	[ICRA]AAA (Stable)
INE539K14AU9	Commercial paper programme	Aug-30-2022	7.04%	Aug-30-2023	100	[ICRA]A1+
INE539K14AW5	Commercial paper programme	Dec-30-2022	7.08%	Mar-14-2023	200	[ICRA]A1+
NA	Commercial paper programme^	-	-	7-365 days	1,200	[ICRA]A1+
-	Bank lines – Long-term fund based	-	-	-	**8,000**	**[ICRA]AAA (Stable)**

Source: Company; # Call option – 10 years from date of issuance; ^ Yet to be placed

Key features of rated debt instrument

The perpetual debt programme is rated one notch lower compared to the other long-term debt programmes to reflect the specific features of these instruments wherein debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. The domestic regulatory norms include regulatory approvals from the Reserve Bank of India (RBI) for debt servicing (including principal repayments) if the company reports a loss and is not liable to service the debt if it breaches the minimum regulatory capitalisation norms.

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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